

CHAIRMAN'S MAJLIS

Board Effectiveness



Introduction:

Hawkamah, the Institute for Corporate Governance, recently had an opportunity to host a roundtable discussion with board Chairmen, governance experts, and senior executives in the private sector from across industry, manufacturing and health sectors. Those attending shared their perspectives on heading a board of accountable, committed and proficient members. Also attending were experts in the profession of advising boards on effectiveness. The result was an insightful discourse on the hands-on approach to creating effective boards, pain points to watch out for and acumen on actionable methods of ensuring board effectiveness.

The debate surrounding effective corporate governance, and the role of the board in implementing it, is moving forward amid greater public awareness and international investment interest in regional companies. Corporate governance, in its simplest definition, is the way corporations are steered, directed, managed, and controlled. At the very heart of corporate governance is the Board of Directors. But ensuring board effectiveness in a region where family run boards are the predominate trend cannot be taken for granted.

As the region's enterprise and industry markets continue to expand, companies are facing increasing interest from regulators and international investors for greater transparency and accountability. Many elements must be taken under consideration when putting together an effective board and keeping it running at optimal capacity. How this has been done within the companies of those present is the subject of this white paper.

Issues covered included:

- Accountability
- Family board members
- Pain points
- Profitability & Ethics



Accountability

“I don’t buy excuses because I can’t sell them”

A seat on the board is a privilege reserved for those who have both influence and skills to make sharp decisions and bring about effective change. The board is a symbol of power stewardship and, when made up of accountable, qualified and experienced members, can ensure an enterprise’s success. For many having a seat at the table represents an opportunity to be heard and to make a difference. But when board members are also shareholders, or second or third generation family members, how does a chairman ensure they are effective? How is accountability assured?

It is well understood that the region is experiencing a period of rapid change and advancement. This also includes policy formation and regulation at the corporate level. Private enterprises and public organisations are today coming under increasing scrutiny and are held accountable on a range of metrics. How do chairmen ensure board members are abreast of these issues and delivering on their responsibilities? Instilling good corporate governance across the board, both figuratively and literally, is where accountability and good leadership meet.

A high-level figure in the UAE, an industrialist who heads up several private sector companies points out that Corporate Governance doesn’t start and stop with the board. It starts with leadership. Alluding to the fact that this particular region faces specific challenges when seeking to instill good corporate governance, he said, “As a region we don’t subscribe to great corporate governance or good governance in general. This is even in basic terms of checks and balances, leadership in communities, CEOs being vetted, or the way public policy formation is

derived, among other issues, and even at private enterprise levels. This presents a challenge because across both the private and public sector instilling good corporate governance goes beyond leadership. Leaders move on but once good governance is in place it should endure beyond those founding leaders.”

Serving on the board is a privilege not a right. Questions to consider are, ‘is this person able to do the job, positively contribute and add value? Will there be conflicts of interest? Can they be loyal and dedicated to the company and its goals?’. You must take into consideration diversity of background, brain power and integrity. You cannot simply appoint a family member, whether a man or a woman, who is not capable of doing the job in order to fulfil quotas. This is not fair to the individual or the company. You don’t ask a question of a person who you know does not possess the answer, said one chairperson present.

It was widely agreed in the room that while it will take time to instill good governance across the board, literally and figuratively in the UAE, the issue is not how fast we get there as a region, but that we make a beginning on this journey.

“Other regions have no excuse to not get it right. The West for example has organisations and family enterprises that have been established for decades, if not centuries. They have had every opportunity to get it right, and to instill good corporate governance. This puts our region at a distinct disadvantage as there are growing expectations for this region to have great corporate governance in place, but we are not there yet.”

Family, Management, and the Board:

“You cannot tell your board ‘I want my son to join the board, or to be the CEO, but please take it easy on him’”

Most companies are family concerns in the GCC and most of the boards are made up of the senior family members. When this is the case, how do we hold family members accountable when they are both shareholders and board members?

The question of how to pick your board is not new and there is a wealth of information available on the subject, but those attending the roundtable were in agreement that family board members should be subject to the same scrutiny as any other board member. One commented, “You need a high IQ, intelligent people, either in IQ or emotional intelligence, because you have to address the difficult issues of the day and you cannot buy or rent IQ. Integrity is essential. You need to know your board members, and if they can lead you into a possible conflict of interest. It could be that there is a relationship to the board member who is in a similar business, and this may lead to a conflict of interest, so doing a background check is a prudent prevention measure. With the level of transparency required from boards today, you cannot take the risk. The rest is harmony and people without egos. Egos on boards are a kiss of death.”

There are many cases of owners who want also to be in management. There is nothing wrong with that, said one expert, but once you have decided to have owners in management, follow the right path. “You need to get the corporate culture right from the very beginning. You need to ensure the salary scale is correct, that the family member is accountable, responsible, and delivers the goods. It might be that his father is the owner, but that is where it stops.”

“Too many company owners today want their sons or daughters in high level positions but they feel they need to protect them from certain corporate pressures. That is not tenable. If the company is to survive beyond the present leadership, the future generation must be up to the task. “You can’t say, I want my son in that position but take it easy on him. You can’t say turn down the temperature on the hot seat of accountability on my son because your competitor doesn’t have an off button, and accountability has the same temperature regardless. He’s the guy who is beating you in the marketplace at every step of the way,” said another chairman during the discussion.

What tends to happen with second or third generation family members in a founder-owned and run business is that they do not want to roll up their sleeves and get on with the job, no matter how menial it might be. There is that disconnect, that distance from the work force, and this can present a problem said attendees.

Other attendees agreed and added that here ethics, accountability and family on the board are issues that are connected. Setting high standards of workplace ethics at their companies is crucial. Where family are employed, all agreed they must show up early, leave late, and work diligently, so setting an example to others. If good governance is not instilled in these most fundamental ways with family members, the company can take a wrong turn, agreed the chairmen. One added, “It’s one thing when you have your son or your daughter in the company but what happens when you have cousins and nephews and so on?”

Regional Pain Points:

“Being critical must be in the DNA”

Some attendees felt that sometimes boards are not as critical as they should be. They want to see the tough questions asked, they want members to be held accountable when targets are not met. “Any company that wants to survive in today’s competitive market must be critical. It has to be part of its DNA. Ask the difficult questions, look for areas of improvement, and do not be afraid to criticize. You must have thick skins. Either have thick skin or go work somewhere else. I think being more critical is imperative. You need to ask smart questions but not be afraid to get tough on the answers.”

One chairman pointed out that the problems do not lie in what is being said, but in what is being left unsaid. While board members must feel free to voice their concerns and opinions this can be more complicated than it seems at face value.

An issue that faces this region in particular is the conflict between being critical and being aligned. This is created because individuals naturally shy away from conflict and in a region noted for its close family ties, being part of the tribe can also mean not disagreeing with the tribe and herein lies the difficulty noted by our chairmen. Emphasis must be placed on ensuring that all board members feel empowered to speak freely. That, they agree, is where solutions lie.

Another issue found in this region is board members coming to meetings unprepared. “They turn up with nothing but their car keys and mobile phone, having not read the agenda, with nothing prepared to say,” noted one attendee.

Making sure that board members are aware of what is expected from them is essential in this regard. The agenda must be sent out well in advance of the meeting and should clearly state on the invitation: ‘Please look over the attached and attend the meeting to give your feedback’. Always ask them for their feedback at the meeting. Even the most resistant to coming prepared will soon get the message.

If you want the board to be effective, you must have an agenda that reflects the issues of the day and you also have to prepare for tomorrow. Effectiveness also means enough information must be presented. Even with the best of intentions, the less information presented to the board the less effective they will be. The more information you present to them on any subject matter, the more effective they become. Then be aware of the direction the meeting is taking by ensuring the agenda is followed and all the topics addressed.



Ethics & Profitability:

“It’s about dollars and cents in the end”

The extent of responsibilities faced by high-level leadership has never been higher and in the modern market place leadership has many facets. Having the right mindset is critical when faced with corporate responsibilities, such as ethics, profitability, social responsibility, sustainability and legislation, among many other issues. All while leadership is accountable to shareholders or those who represent them. Therefore, a culture of accountability must be fostered. One way to achieve this is to ensure from the onset that the board members are very clearly aware of shareholder expectations. What are the key areas that the shareholders are expecting to hold them accountable?

It might sound like it goes without saying that clear expectations should be conveyed to the board by the shareholders. The biggest expectations, ideas or deliverables that board members are accountable for should be relayed loudly, clearly and frequently. Whilst this sounds obvious, research points to a clear lack of transparent communication in corporations, but shareholder expectations must be very clearly communicated in board meetings and must continue to be emphasized.

However, accountability and corporate governance cannot allow for focus to be taken away from the business of business. “It should not allow them to take

their eye off the ball. The last thing you want is for the board to present reports on risk or effectiveness while business mishaps are happening around them. It is about dollars and cents in the end, it is about having a competitive advantage. Otherwise there is no enterprise in which to instill corporate governance.”

Most agreed there was no ideal textbook approach to better corporate governance. Every company has its own circumstances, as does every industry, while sectors have their own peculiarities. For some, for example, response times can be difficult, and so for these companies delving into corporate governance cannot be at the expense of being responsive. “It is important to watch for somehow creating a nescient organisation or creating unnecessary layers. There is more to it than simply prescribing governance. There is no cookie cutter approach to this.”

Another point stressed by the chairmen was that their role was to listen more than speak. “The chairman who controls the board with his own views is treading a precarious path because the chairman needs to hear all views in the room before giving his own. If he doesn’t do this, he runs the risk of influencing views and cutting off criticism from the start. If a board is to be effective, the chairman must know when to hold back otherwise it becomes a dictatorship.”

Conclusion

“Blue skies never come, so start now”

There is a need to create awareness about what you can do to create greater board effectiveness and board assessments can help. Two important issues for board effectiveness are composition of the board, and the second is behavior of individuals. Assessments can help to understand and get to know your board members, however, there are some fundamentals that all chairmen should be aware of.

One, is how does a member act within the group because there is a gap between how they are perceived by the board and how they feel they are perceived. Once the member understands that they are respected for certain abilities they relax a bit because when this is made clearer to them they grow in confidence. Another issue to understand is how to use the individual strengths of the board. This is where the soft skills of leadership come in by finding people who complement

each other, understanding what they can contribute and how best to use that talent on the board.

“There is never an ideal time to start. We are all always dealing with uncertainty. What I tell my board is uncertainty is a certainty so don't wait for blue skies, because they never come, so start now. The important question to ask is, 'Do you want the company to survive when you are gone?' If yes, what do you think you need to do to make this happen?" In this region, as in any other, there is a need to plan good governance based on what suits the company. We can say what looks good on paper, but for every situation, organisation and industry, you must factor in what is important in that particular set of circumstances looking down the road.

